



COUNCILMEMBER DONNA FRYE
City of San Diego
Sixth District

MEMORANDUM

DATE: July 31, 2007

TO: Mayor Jerry Sanders
City Attorney Michael Aguirre
Deputy City Attorney for Disclosure, Mark Blake
Acting City Auditor/COO/CFO, Jay Goldstone

FROM: Councilmember Donna Frye *Donna Frye*

SUBJECT: Debt Management Policy

At the July 25, 2007, City Council Budget and Finance Committee meeting, there was an item brought forward by the Mayor's office regarding the City's Debt Management Policy (Debt Policy). However, this Debt Policy did not include the Pension debt or the Retiree Health Care debt. In addition, it is not clear if the Debt Policy included the Preservation of Benefits debt. Instead, the Pension and Retiree Health Care debt was described as "soft" debt and, therefore, was not included in the Debt Policy.

Given that the above debt accounts for at least \$2 billion, it is unclear how this amount is *not* considered debt for purposes of the City's Debt Policy. At a minimum, it should be disclosed in the Debt Policy. This is especially relevant given U.S. Securities and Exchange Commission Chairman Christopher Cox's comments in his July 18, 2007, speech "Integrity in the Municipal Marketplace." He noted:

"Very recently the SEC sanctioned the City of San Diego for committing securities fraud. They failed to disclose to municipal bond investors important information about their pension and retiree health care obligations. San Diego's offering documents didn't tell investors that the city's unfunded liability to its pension plan was projected to grow dramatically – from \$284 million at the beginning of 2002 to \$2 billion by 2009 – or that the city's liability for retiree health care was projected to grow to more than \$1 billion. Investors had no way of knowing that the city knowingly under-funded its pension obligations so that it could increase pension benefits, while deferring the costs. If investors had known this, they could also have figured out that San Diego was bound to face severe difficulty funding its future pension and retiree health care obligations – a minor little piece of accounting business."

As follow-up to the issues I raised at the Budget and Finance Committee meeting, I am requesting that the following information be provided before the Debt Policy is brought back to the committee:

- A list of all City debt that is not included in the City's Debt Policy, including the dollar amount (both principal and interest) and repayment schedules.
- A definition of the word "debt" as used in the Debt Policy.
- Legal analysis as to why only some debt is included as such in the City's Debt Policy.
- Comparison of City's debt capacity with and without "soft" debt

Cc: Andrea Tevlin, IBA
Stanley Keller, Independent Consultant